APPENDIX F

PRELIMINARY NORTHEAST U.S. MARKET ASSESSMENT - POTATOES

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EXECUTIVE SUMMARY

Potatoes are P.E.I.'s largest export commodity. Within Canada, "P.E.I." is synonymous with top quality potatoes. This recognition does not extend to American consumers, in spite of the fact that P.E.I. potatoes are superior in quality to all but the best of U.S. potatoes.

The market for potatoes and potato products is largely mature. Within the Northeast market, however, two opportunities stand out. First, market conditions appear to exist for a P.E.I. based dehydrated potato producer to supply Eastern Seaboard food processors such as Keefler and Procter & Gamble.

Dehydrated potato flakes are in increasing demand as they are a major input for popular snack products. Supply has been limited for several years and transportation costs to eastern seaboard food processors are significant. P.E.I. produces a satisfactory supply of off grade potatoes to service a dehy plant.

The second opportunity is for P.E.I. fresh tablestock potatoes to penetrate the U.S. market to a further degree than has been done in the past. Cooperative promotion and value added product differentiation and strategies to achieve greater P.E.I. potato market share and consumer recognition.

1.0 INTRODUCTION

This report presents a portion of the analysis conducted during a three-phase study of Northeastern United States Export Opportunities for Prince Edward Island Firms, in light of the Free Trade Agreement. It was produced by the DPA Group Inc., Halifax, in association with Smith Green & Associates, Charlottetown, and Enterprise Management Consultants, Charlottetown. The study was co-sponsored by the Prince Edward Island Department of Industry, and the Atlantic Canada Opportunities Agency (ACOA).

The following represents one of the preliminary market assessments carried out during the study. It is intended to provide information to existing and potential P.E.I. exporters regarding the Northeast U.S. market opportunities for potatoes, and point to further work required. The report is not intended to be a substitute for the independent market research that Island companies should conduct before developing a U.S. market penetration strategy.

2.0 EXTERNAL ENVIRONMENT

2.1 Overview

Potatoes represent P.E.I.'s largest export product. The following lists P.E.I. potato exports in 1989:

	1989 (U.S.)	1989 (all countries)
seed	$ 4,521,000	$19,122,000
table	21,434,000	29,848,000
frozen	23,664,000	29,313,000
Total	$49,619,000	$78,283,000

P.E.I.'s seed, table, and frozen potato exports to the U.S. represent over 27% of all Canadian exports of these products to the U.S.

The North American market for potatoes and potato products is mature. It is serviced by thousands of individual producer farmers and several very large food processors.

2.2 Dehydrated Potato Products

There is evidence and opinion from many in the industry that significant markets exist for the long term development of the dehydrated potato market. The North American snack industry is becoming an increasingly significant user of dehydrated potato flakes. As well the growth in demand for convenience foods and food eaten away from home has also led to increased demand for dehydrated potato products.

Dehy potatoes can be produced into flakes, granules, flour, and also sliced and diced forms. This study will focus only on the flake product because it is the least capital intensive form of dehy to produce.

Traditionally, the average person knew of de-hydrated potatoes as instant mashed potatoes. Canadian dehy production declined 45% to 24.8 million lbs from 1975 to 1985. U.S. dehy production fell 23% during the same period to 380 million lbs. These production declines reflect changing consumption patterns as consumers move away from instant mashed potatoes toward increasing consumption of frozen and fresh potatoes.

Table: EXPORTS OF CANADIAN DEHYDRATED POTATO PRODUCTS

	U.S.		All Countries	
	kg	$	kg	$
Dried	241,504	327,000	241,504	327,000
Flour & Meal	--	--	203,663	204,000
Flakes	1,065,417	1,428,000	2,343,461	2,919,000
Starch	1,332,265	654,000	1,360,726	674,000
		$2,409,000		$4,124,000

Source: STATISTICS CANADA

In recent years, the market for dehy potato flakes has seen extremely strong increases in prices. Currently, dehy flakes are one of the main raw material inputs in snack products produced by Procter & Gamble and Keebler; these two processors account for the vast majority of the industrial market for flakes. The demand is relatively inelastic as there is no substitute for the flakes as a raw material input.

Supply has been reduced because of poor potato crops in the U.S. during 1988 and 1989. The net effect of these supply/demand trends has been to move the market price for flakes from 30-40¢ U.S. per pound to 80¢ - $1.00 U.S. per pound since 1987. Although it is expected that supply shortages will exist in North American markets throughout 1990, industry personnel expect that the long term market price would be closer to 40 - 50¢ per pound in current Canadian dollars.

All major U.S. dehy suppliers are in the Northwestern states. Although dehy is sold to processors in the west and has a large export market in Japan, there are many large processors buying dehy and shipping to factories on the Eastern Seaboard. A P.E.I. dehydrated potato flake supplier would have significant comparative transportation efficiencies to the Northeast market.

It has been estimated that a flake plant would cost between $6 and $10 million to build and equip. This capital cost estimate puts the facility within the reach of a moderately capitalized start-up venture. Further, it has been estimated that 25¢ to 30¢ per lb would be necessary to cover all variable and reasonable fixed costs, over the cost of the potatoes, in order to make an acceptable return.

Total 1989 potato production for the Island was 18 million hundred weight (mhw = hundred million pounds). Culls and smalls ("off grades") represent between 15 and 25% of the annual potato harvest in P.E.I., or approximately 3.5 to 4 mhw per year. Much of these culls are sold as cattle feed or buried in the ground. The cull rate varies depending primarily on weather conditions; a dry season leads to "knobby" potatoes and a cold, wet season can lead to bruising.

It is this supply of off-grade product that is suitable for supplying a dehy plant in P.E.I.

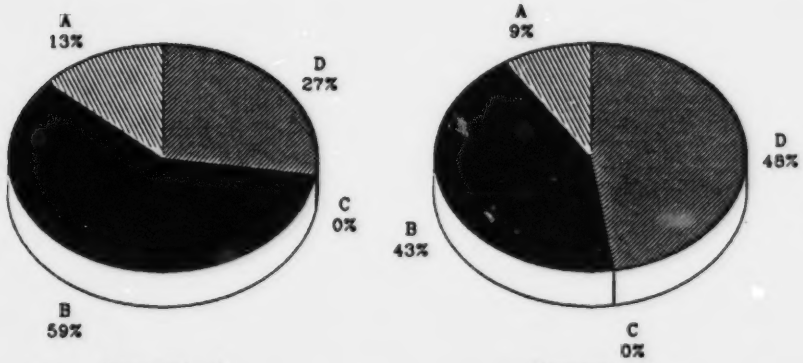
2.3 Fresh Tablestock

It is estimated that the consumption of tablestock potatoes in the Northeast states is approximately 25 mhw. The regional, year round average market share held by P.E.I. tablestock potatoes is estimated to be approximately 5% or about 1.3 mhw. In 1989, P.E.I. exports of tablestock potatoes to the entire U.S. market totalled 1.47 mhw. The current status of P.E.I.'s exports of potatoes is presented in an exhibit on the following page.

Throughout the United States, Idaho potatoes are synonymous for top quality potatoes and have been elevated above commodity status. P.E.I. tablestock potatoes are, however, full equals to those from Idaho and are visibly superior to potatoes from other U.S. producing areas.

The traditional shipping season for P.E.I. exports to the U.S. is between October and June. The market share for P.E.I. tablestock in Boston, the Island's strongest U.S. market, has peaked at about 16% during the mid winter months. Unfortunately, P.E.I. tablestock market share tends to be as a result of weak domestic U.S. production and supply. Although the wholesale and retail trade are aware of the quality of P.E.I. potatoes, consumers do not appear to be informed enough to look for a P.E.I. label.

Exports From PEI to the United States
Potatoes



A – Seed, Fresh, Chilled;
B – Fresh or Chilled NES;
C – Frozen; D – French Fried, Puffs

Exports From PEI to the United States – Potatoes				
	kgm	Percent of Total	$,000	Percent of Total
A – Seed, Fresh, Chilled	15,025,000	13.3%	$4,521	9.1%
B – Fresh or Chilled NES	66,663,000	59.2%	$21,434	43.2%
C – Frozen	85,485	0.1%	$19	0.0%
D – French Fried, Puffs, Frozen	30,857,892	27.4%	$23,645	47.7%
Total	112,631,377	1	$49,619	1

Source: **STATISTICS CANADA - 1989 FIGURES**

Note: **All figures in Canadian 1989 dollars**

3.0 TARGET MARKETS

This study focuses on the New England and Mid Atlantic States as the prime geographical target market. The Northeast region is defined as including the following States:

New England	Mid Atlantic
Maine	New York
New Hampshire	New Jersey
Vermont	Pennsylvania
Massachusetts	
Rhode Island	
Connecticut	

Projected 1990 population for the Northeast region is 50.57 million people; 66% of this population is 25 years or older. This older segment is the prime target market for consumption of lobster products.

In 1988 total weekly expenditure for food at home was $41.91. Fresh potato expenditure was $0.36 while frozen vegetables expenditure was $0.48 per week. The annual retail market for fresh potatoes in the Northeast States was approximately $950 million (U.S.) in 1989.

Families in the Northeast had the highest weekly expenditure on food away from home of the major regions of the United States. In 1988, the average family in the Northeast spent $25.69 on food away from home.

American per capita annual consumption of potatoes increased by approximately 5% between 1970 and 1988 to 126 pounds per year. This growth has been fuelled by a 73% increase in frozen potato consumption from 26 to 45 lbs per year and offset partially by a 18% decline in fresh potato consumption to 51 lbs per year.

It is instructive to separate the markets for potatoes and potato products into industrial, institutional, commercial and retail.

Industrial target markets include companies like Procter & Gamble, Campbell's, and Frito-Lay. These customers use potato products as ingredients in the production of finished food products. For example, the Pringle's potato chip uses dehy potato flakes as a main ingredient, while canned soups may use diced potatoes. Many of these companies have indicated that they are interested in identifying and sourcing additional suppliers.

Institutional target markets include cafeterias, hospitals and nursing homes. They need to feed large quantities of people with foods that can be prepared economically served, in uniform quality and with effective portion control.

The commercial market includes restaurants and hotels. Their product needs are similar to those of institutions except that quality is significantly more important.

The retail market includes grocery outlets and convenience stores that sell to people who will predominantly prepare the food item at home. Increasingly, however, food retailers are making significant inroads into the prepared food market. Most retailers would rather just sell these items rather than invest in the equipment and personnel to prepare a large number of value added items. Meat counters, produce sections or most predominantly deli counters are devoting more and more shelf space to items that save the consumer time, effort and skill in preparing.

4.0 COMPETITIVE ANALYSIS

4.1 Processed Potato Products

There are very large and efficient companies involved in processing potatoes. McCain, Carnation, Ore-Ida, and Cavendish Farms can be both major customers and major competitors for small firms trying to establish themselves as potato product processors. Companies that respond to small market niches that the majors cannot efficiently address, while not competing directly with industry giants, will find they can peacefully coexist. Private label production and subcontracting for the majors may be feasible. Year round supply is important when dealing with major customers and value added product.

Following are the major North American potato processors, listed in order of their estimated industry ranking:

- Lamb-Weston;
- Simplot;
- Carnation;
- Ore-Ida;
- McCains; and
- Universal.

Penobscot Frozen Foods (Belfast, Maine) is a small but successful processor that specializes in stuffed potatoes, potato skins and toppings.

Vauxhall Foods of Vauxhall Alta., is a growers coop dedicated to producing dehy. Ninety percent of their sales are in export markets, mainly the Pacific Rim. Vauxhaul produces thin product from culls and smalls.

Because the Canadian market for dehy is small and well served by major players, (McCain and Carnation are also active in this market), a P.E.I. facility would be required to rely on export sales.

4.2 Fresh

Over 70% of all U.S. potato production is concentrated in the North West States. Total U.S. 1989 production was 370 mlnw.

It is generally agreed that P.E.I. fresh potatoes have a better appearance than all but the best Idaho, and significantly better than all other U.S. tablestock.

Maine potato growers have invested heavily in promoting the quality of their potatoes in the Boston area, through television and radio advertising as well as printed literature at point of sale.

5.0 PRODUCT STRATEGIES

Specific value-added or differentiated product opportunities include: Stew packs, stir fry packs, small restaurant sized potatoes in institutional packages, small microwave packs, potato skins, prepeeled potatoes, precooked frozen. Following are lists of specific product opportunities in each of the major market areas.

Industrial Market:

dehy flakes and granules
dehy sliced and diced
potato flour
potato starch

Institutional Market:

potato salad
granules
sliced and diced
uniform smalls for restaurants
pre peeled
fresh sliced and diced
dehy granules

Commercial Market:

fresh and frozen
fresh tablestock uniform smalls
stuffed potatoes
prepeeled
potato skins

fresh sliced and diced
fresh and frozen side dishes
prepeeled potatoes

Retail Market:

fresh tablestock
5-6 potatoes in a row, 24 oz package for $1.69 vs. a 5 lb bag for $1.49
branded stuffed potatoes
potato skins
potato salad
copack private label
potato salad
fresh sliced and diced
stew packs
stir fry packs

6.0 PROMOTION AND PRICING STRATEGIES

6.1 Promotion

6.1.1 Trade Shows

All P.E.I. food product suppliers interested in selling to the Northeastern United States should take part in an NEBS mission. This involves travel to the New England market, meet with customs agents, representatives from the U.S. Food and Drug Administration, and a few distributors. Then, they should plan to take part in the annual Solo Food Show held in February, a Canadian food products show organized by the Boston Consulate office. Last year, 66 Canadian companies exhibited at the Solo Food Show from eight provinces. There were 2,300 visitors to the show over its eight hour duration. This year, $140,000 U.S. in on-site sales took place at the Solo Food Show, with projected sales of $16.5 million. This has been the pattern over the last three years, according to the Boston Office.

6.1.2 Consumer Promotion

Specific consumer oriented promotional possibilities include the following:

- point of sale material such as grocery "shelf talkers" which promote P.E.I. potatoes as top quality
- a plastic wrapped informational leaflet in all retail packaged P.E.I. tablestock
- a cooperative advertising allowance for retailers to state "product of P.E.I" when advertising in newspapers and flyers; and

- literature and promotion designed to educate American tourists about the quality of P.E.I. potatoes.

All of these suggested promotional tactics would be most effective if they were the result of a P.E.I. potato industry-wide effort. Such a cooperative approach would give the most cost effective, coordinated and consistent message to American consumers.

6.2 Pricing

Because all of the product opportunities discussed in this report depend on pricing of potatoes, the cost of selling these processed potato products will directly reflect the commodity price for potatoes. P.E.I. producers and processors must be as competitive and efficient as all the other players in these markets.

It is crucial for P.E.I. producers to develop systems and contacts in the U.S. market that can keep them informed of the pricing and promotional activities of competitors. Accurate and timely competitive activity information will allow P.E.I. companies to maximize selling prices while still being competitive. For example, if a company is selling through a broker or are able to develop a cooperative relationship with your distributor, then these people will prove extremely valuable in obtaining competitive activity. However, the Island processor must take the primary responsibility for consistently monitoring your export competitors. Such activity will take time and money, but without it the company may not remain in the export business.

)N STRATEGIES

od service industry pass through brokers. A broker looks for g a potential new line or supplier:

ıted commitment on the part of the supplier; and
ve arrangement.

ted by the amount of homework done by the potential supplier, ailable for the broker to use, and the sales/pricing programs the e now, or is willing to implement with the assistance of the

exclusive arrangement. The arrangement offers two-way er will not carry a competing food line.

.I. producers sell through brokers to food service distributors. is that brokers are able to consolidate truck load shipments ing shipping costs. Another reason is that brokers are already large, full-service food service distributors such as Hall Smith, hile the P.E.I. processor acting on his/her own may be unable tomated, computer-based buying system of these major food er often can.

rokers is that the P.E.I. processors' selling cost will be much ıly need to call on a New England broker once every two or required to fly down at least once a week to sell to a large ributors. Food service brokers will charge a commission of sion can, on rare occasions, get as high as 10%, if the product hich is likely to be a slow mover.

It is recommended that Canadian processors not sign contracts with brokers unless they have checked the broker out with the consulate first. While there are many brokers in the New England area that the Trade Officers do not know, they are familiar with many of them, and knows those with good reputations, as well as those with poor ones. It should be noted that while consulates are in a position to provide information about brokers operating in their jurisdictions, they would not make specific recommendations to avoid being placed in a potentially difficult situation.

Prince Edward Island processors should determine if the broker is carrying any directly competing lines. If the broker is dealing with the processor's competitors, and those lines are selling well for the broker, then it is very unlikely that the P.E.I. company's product will be pushed.

Many brokers will request an exclusive arrangement for the entire U.S. market. While such a large territory is unreasonable, most large brokers can adequately cover the New England market and will expect this size of territory.

It is recommended that a 60-90 day contract be drawn up first, as a trial period, with termination possible at any time by either the processor or the broker. In contracts signed after the trial period, a 60 day termination notice by either party would be required to cease the relationship.

During the first few weeks, the processor should expect to be contacted by the broker very often asking for further product details, delivery specifics and other information. If this does not happen early on, then it is quite likely that the broker has not been doing his/her job or getting enquiries from retailers.

It is suggested that one broker may be required for the New England states, with another for New York and surrounding states. In some cases, the New England firm may wish to co-broker with a colleague in New York, a relationship which would enable them to trade product back and forth and generally manage the entire territory better.

It is suggested that during the first 3-6 months, the P.E.I. processor should plan to accompany the brokers' sales representatives while they call on accounts. This would enable the processor to educate both the broker and the accounts of the benefits of the product, evaluate the broker's efforts, and generally evaluate how the broker is treated by the buyer. It is a fact of life that most processors do not completely trust their brokers for at least 2-5 years, until the relationship has been established.

Concerning collections, the Canadian Consulate can offer credit advice to processors concerning New England distributors, as the Boston Consulate subscribes to a credit information service. Brokers can sometimes assist the processor collect money, as they are paid only when the processor is paid. However, it is not the broker's responsibility to collect overdue accounts.

Typically, brokers are paid by processors twice a month, based on payment received by the processor on the net sale of goods. The term "net sale" refers to the selling price of the product only; commissions are not paid on freight costs or customs broker charges.

8.0 NEXT STEPS

The information contained in this report is intended to provide a *preliminary* market assessment and strategy only; would-be exporters should conduct more analysis before going further. The following steps are recommended:

- Review Company Operations;
- Explore Export Assistance Programs;
- Conduct Detailed Market Research;
- Develop Company-Specific Export Marketing Strategy; and
- Implement the Strategy.

8.1 Review Company Operations

Prior to making any decision to export, the company should conduct a thorough review of its domestic performance and capabilities. For example, sales, profit margins and prices should be compared with those of the industry. If domestic performance is suffering, then perhaps the company's efforts would be better spent making improvements there, prior to venturing into new markets.

Another aspect to thoroughly investigate is the company's resources. Exporting requires considerable time and financial resources, especially in the early stages. The company should determine whether it has a production capacity to ensure that orders can be delivered promptly to both Canadian and U.S. customers. Reliability is one of the most essential requirements for a success in exporting. Therefore, it is not wise to export simply to periodically unload excess inventory.

It is important to ensure that all senior managers of the company be committed to exporting before embarking on such an exercise. Exporting often requires a considerable investment of company resources for a long period before any profits are seen.

The export strategy should form part of the overall company strategy. The company should be clear about its expectations from exporting as well as fully aware of its own limitations. For example, if the company is not prepared to increase production to respond to international demand, then it should not be considering the export market.

8.2 Explore Export Assistance Programs

Assuming the company has the management time, financial resources, capacity and commitment to export, the next step is to explore export assistance programs which are available to assist P.E.I. companies enter export markets.

A number of federal and provincial government programs are available to assist with export market research, make product modifications, provide export advice, assist with financing, contribute to the costs of export advertising and promotion, and help pay for the cost of developing an export marketing strategy. A summary of the assistance programs available to P.E.I. companies is available in Appendix 1.

8.3 Conduct Market Research

Once the programs available to conduct such research have been reviewed, the company should begin to collect U.S. market information additional to that which is presented in this report. There are a number of general sources of U.S. market information available to P.E.I. companies. Some of these sources are presented in Appendix 2.

Appendix 3 presents a list of organizations, contact names, addresses and telephone numbers for relevant distributors and brokers in the New England States. This list was provided by the Canadian consulate office in Boston.

8.4 Develop an Export Marketing Strategy

Once sufficient market research has been carried out, the company should prepare a written export marketing strategy. This need not be lengthy; point form strategies are often more useful than long, windy documents. Committing the strategy to paper helps ensure that few things are overlooked and allows for a periodic review of performance. The following elements of a typical Export Marketing Plan appear in the publication *Export Guide - A Practical Approach* written for External Affairs Canada by the Canadian Exporters' Association:

- **Management Survey**

- **Analysis of Target Market(s)**
  - buyer
  - competition
  - channels
  - technology
  - government

- **Review of Company and Product**
  - past performance
  - resources - financial, production and human
  - organization structure - incentives, authority, responsibility
  - domestic marketing program: product, price, promotion, distribution

- **Problems and Opportunities in Target Markets**
  - strategies for each of these, for example, a company may be more successful in penetrating a market on a joint venture, licensing agreement or equity investment

- **Export Market Program**
  - product strategy
  - price
  - promotion
  - distribution
  - research

- **Financial Implications of Exporting**
  - projected revenues
  - projected expenses
  - financing needs
  - sources of financing

- **Program Implementation**
  - who will do what, when, where
  - staff recruiting, training, controlling and compensating

- **Program Evaluation**
  - information flow for ongoing feedback

- **Contingency Plans**

8.5 Implement the Strategy

The next step in the export process is to implement the marketing strategy. Appendix 3 contains practical information concerning finding U.S. export partners, and the organizational factors to be considered -- two important elements in the implementation process.

APPENDIX 1

EXPORT ASSISTANCE PROGRAMS

**Prince Edward Island Companies'
Access to Federal and Provincial
Export Development Programs**

The programs summarized in this section are intended to provide an outline of some major federal and provincial programs related to marketing and export to the United Sates.

FEDERAL PROGRAMS

A. ATLANTIC CANADA OPPORTUNITIES AGENCY

ACOA Action Program - designed to focus assistance on the innovative ideas of small and medium sized businesses within eligible sectors. The following assistance is available.

1. **Marketing Development** - designed to encourage small and medium sized business to establish a marketing strategy to maximize revenues through the development and maintenance of domestic and export sales, import replacement and product diversification. Contributions are be available for:

   A The cost of hiring a qualified person for up to three years for the implementation of a marketing plan. The contribution would be up to 75% during the first year, 50% during the second year and 25% during the third year, for the cost of hiring an incremental qualified person(s) to implement an acceptable and approved marketing plan.

   B The direct costs of developing new packaging, promotional materials, advertising, product or equipment demonstrations and participation at trade shows. Contributions can be up to 50% of direct costs associated with packaging and labelling, promotional material, advertising, products or equipment demonstrations and trade shows, fairs and exhibits.

2. **Innovation Assistance** - financial support to advance the level of technology in use in the region, improve productivity or develop new or improved products.

3. **Capital Investment Assistance** - support for new facility establishment depending on evaluation of viability and economic benefit and for expansion or modernization of existing facilities.

4. **Business Studies** - assistance in the costs of engaging qualified consultants involved in investigating ideas and in improving the quality of management.

5. **Business Support** - assistance in the costs of non-commercial projects that provide a proven service to small- and medium sized businesses such as training and technology transfer.

6. **Supplier Development Service** - assist companies to compete more easily for government purchasing contracts for goods and services.

CONTACT - ACOA Regional Office, 3rd Floor, 75 Fitzroy Street, Charlottetown, P.E.I, C1A 5A6 (800 565 0228)

B. DEPARTMENT OF EXTERNAL AFFAIRS

1. Program for Export Market Development (PEMD)

DESCRIPTION - PEMD is the primary trade related program in the Department of External Affairs, the objective of which is to increase the sales of Canadian goods and services. This is achieved through cost sharing activities and involves both industry initiated activities and government planned activities.

The following industry initiated export marketing activities are eligible:

- participation at recognized trade fairs outside Canada
- visits outside Canada to identify markets and visits of foreign buyers
- project bidding or proposal preparation for specific projects involving international competition and formal bidding procedures
- the establishment of export consortia for companies
- the establishment of permanent sales offices abroad
- special activities for non-profit food, agriculture, and fish organizations, marketing boards and agencies
- marketing agreements with the department to undertake a concentrated marketing program

Government-initiated activities include:

- sharing the cost of a company's participation at trade exhibits outside Canada
- sponsoring outgoing missions of Canadian business people to identify market opportunities abroad
- hosting incoming missions to Canada of foreign business and government officials who can influence export sales

ELIGIBILITY - Applicants must be an incorporated business, an independent firm of professionals, a non-sales association, marketing agency or board, or a national private sector, non-profit trade organization.

CONTACT - International Trade Centre, 134 Kent Street, Charlottetown, P.E.I., C1A 7M8 (902 566-7443)

2. New Exporters to Border States (NEBS)

DESCRIPTION - NEBS is a joint activity involving External Affairs, International Trade Canada, regional International Trade Centres and provincial trade departments. The program is targeted at non-exporters and is essentially a crash course on essential elements for exporting to border states. Participants of the NEBS program are taken to the nearest Canadian Trade Commissioner's office across the U.S. border and over a two-day people period, are ushered through all phases of exporting from customs clearance procedures to warehousing and distribution of goods.

ELIGIBILITY - Applicants must be any Canadian business not presently exporting its commodities to the U.S. on a regular basis.

CONTACT - International Trade Centre, 134 Kent Street, Charlottetown, P.E.I., C1A 7M8 (902 566-7443)

3. New Exporters to the U.S. South (NEXUS)

DESCRIPTION - NEXUS is intended to introduce businesses that are presently selling to border U.S. States to new regional markets in the U.S. and particularly the south eastern and western States. The objective is to get exporters to visit other areas of the U.S. to uncover new opportunities and to improve overall

market share. The focus is on outlining the sectoral market characteristics and on developing a program to gain distribution and sales exposure for the companies.

ELIGIBILITY - Companies will qualify for participation in a NEXUS mission if they have demonstrated a sustained and successful marketing effort to the northern states.

CONTACT - International Trade Centre, 134 Kent Street, Charlottetown, P.E.I., C1A 7M8 (902 566-7443)

4. Other Programs

Info Export - provides information on the government's export programs and refers business people to the appropriate sources of assistance.

CONTACT - toll free at 1 800 267-8376

Commercial Trade Representation Abroad - provides a worldwide network of trade experts whose primary responsibility is to assist Canadian exporters to get started or to expand sales in foreign markets.

Cost Recoverable Technical Assistance Program - aims to improve Canada's performance in marketing Canadian goods and services abroad through the use of Canadian government experts on a cost-recoverable basis.

Geographic Branches - main function is to develop export markets for Canadian goods and services.

International Trade Centres - provide advice on export markets opportunities and refers business people.

International Trade Data Bank - information bank which track and list the export and import flow data from trading nations.

WIN Exports - a computerized information system which matches Canadian exporters to market opportunities around the world.

World Market Trade Development Program - designed to improve Canadian access to world markets.

C. AGRICULTURE CANADA

1. Canadian Agri-food Development Initiative (CAFDI)

DESCRIPTION - CAFDI aims to encourage economic development in the Canadian agricultural and food products industries by providing financial assistance for projects in market development, production development and human resource development.

ELIGIBILITY - Applicants must be commercial and non-profit organizations, including corporations, cooperatives, marketing boards, partnerships, sole proprietorships, universities, industry associations, provincial and territorial governments, crown corporations and government agencies.

CONTACT - Agriculture Development Branch, 141 Kent Street, 2nd Floor, Charlottetown, C1A 8C5 (902 566-7316)

D. EXPORT DEVELOPMENT CORPORATION (EDC)

The EDC is Canada's official export credit agency responsible for providing export credit insurance, loans, guarantees and other financial services for the export community. Specific programs include:

EDC Insurance Program

Export Financing and Guarantee Programs

U.S.A. Commercial Risk (Small Business) Insurance

CONTACT - Atlantic Regional Office, Toronto-Dominion Bank Building, Suite 1003, 1791 Barrington Street, Halifax, Nova Scotia, B3J 3L1 (902 423-0881)

E. INDUSTRY, SCIENCE AND TECHNOLOGY CANADA (ISTC)

Business Opportunities Sourcing System (BOSS) - is a computerized data bank which contains information on Canadian manufacturing and service companies.

CONTACT - International Trade Centre, 134 Kent Street, Charlottetown, P.E.I, C1A 7M8 (902 566-7443)

F. FEDERAL BUSINESS DEVELOPMENT BANK

Counselling Assistance to Small Enterprises (CASE) - provides counselling assistance in all areas of business management including accounting, marketing, production and personnel.

CONTACT - FBDB, Charlottetown Branch, 180 Kent, Charlottetown, P.E.I. (902 566-7454)

Export Receivable Financing Program - provides small and medium-sized businesses with a means to obtain an adequate level of financing for their foreign based receivables.

CONTACT - FBDB, Charlottetown Branch, 180 Kent, Charlottetown, P.E.I. (902 566-7460)

PROVINCIAL PROGRAMS

A. PRINCE EDWARD ISLAND DEVELOPMENT AGENCY (PEIDA)

Market Promotion - provides assistance to advertise and promote companies and their products in an effort to maximize sales and to participate in product trade shows to develop and maintain contacts in domestic and export markets.

Research and Information - provides assistance for identifying new or increased sales opportunities for Island products in local, national and export markets and obtaining market and technical information required to carry on or expand business.

Market and Product Development - provides assistance to generate and increase the sales of P.E.I. products and to develop new or improved products and processes.

Market Organization - provides assistance to upgrade marketing skills, prepare and implement short and long term marketing plans and form marketing organizations to capitalize on market opportunities.

ELIGIBILITY - Eligible clients for the four programs outlined above must be primary producers, producers' organizations processors or manufacturers established and operating in P.E.I.

CONTACT - PEIDA, West Royalty Industrial Park, Charlottetown, P.E.I., C1E 1B0 (902 368-5800)

APPENDIX 2

SOURCES OF GENERAL MARKET INFORMATION

SOURCES OF GENERAL MARKET INFORMATION AND PUBLICATIONS

A) SOURCES

1) International Trade Centre of Industry, Science and Technology Canada
Charlottetown, PEI

2) PEI Department of Industry
Charlottetown, PEI

3) Canadian Trade Commissioner Service
c/o Canadian Consulate
Boston, New York

4) Consulate/Embassy of country of destination in Canada

5) Statistics Canada

6) Export Development Corporation
Atlantic Region Office
Suite 1003, Toronto-Dominion Bank Building
1791 Barrington Street
Halifax, Nova Scotia
Tel: (902) 429-0426 Fax: (902) 423-0881

7) For Agricultural and Food Products
U.S. Foreign Agriculture Service
c/o U.S. Embassy
Ottawa, Ontario
Tel: (613) 238-5335

8) U.S. Customs
Portland, Maine
Tel: (207) 780-3330

9) U.S. Bureau of Census, Boston (via Canadian Consulate in Boston)

10) U.S. Customs Brokers at port of entry in the United States

11) International Business Council of Canada
Canadian Chamber of Commerce
1080 Beaver Hall Hill, Suite 1630
Montreal, Quebec H2Z 1T2
Tel: (514) 866-4334 Fax: (514) 866-7296

12) Atlantic Provinces Transportation Commission
P.O. Box 577
Moncton, New Brunswick E1C 8L9
Tel: (506) 857-2820

B) PUBLICATIONS

1) Directory of the Canadian Trade Commissioner Service
Published by;
Trade Communications-Canada Division (BTC)
Available through;
Info Export (BTCE)
Department of External Affairs
125 Sussex Dr.
Ottawa, Ontario
Tel: (603) 0992-6267

2) So You Want to Export? - Making the Initial Decision
Published by;
Trade Communications-Canada Division (BTC)
External Affairs and International Trade Canada
125 Sussex Dr.
Ottawa, Ontario
Tel: (613) 992-6267

3) Canadian Agricultural Exporter's Handbook
Food Development Division
Agriculture Development Branch
Agriculture Canada
Ottawa, Ontario

For advice on all aspects of agricultural exports, this is an excellent, thorough publication

4) Directory of United States Customs Brokers
Published by;
Trade Communications-Canada Division (BTC)
External Affairs and International Trade Canada
125 Sussex Dr.
Ottawa, Ontario
Tel: (613) 992-6267

5) Export Techniques
Published by;
J.R. Arnold
6122 Depot 1
Victoria, British Columbia
V8P 5L4

APPENDIX 3

SOURCES OF SPECIFIC MARKET INFORMATION

FOOD SERVICE DISTRIBUTORS
(Some of which currently handle potatoes)

A. Lipson, Inc.
69 Fifth Street
P.O. Box 10
Dover, NH 03820
Mr. Raymond Hennessey, President

Associated Foods
725 Gold Street
P.O. Box 5200
Manchester, NH 03108
603-669-3250
Mr. Norman Turcotte, President

Astor & McGregor
One Technology Drive
Peabody, MA 01960
617-665-3435
Mr. Jonathan Astor, President

Bay State Food
10 Hancock Street
Woburn, MA 01801
617-933-2980
Mr. Richard DeSanctis, President

Bay State Lobster
379-395 Commercial Street
Boston, MA 02109
617-523-4588
Mr. Richard Faro, President

Berkshire Beef Co., Inc.
P.O. Box 321
Pittsfield, MA 02102
413-447-7394
Mr. Jack Franchebois, President

Burlington Food Service Co.
P.O. Box 547
Burlington, VT 05402-0547
802-864-5708
Mr. Robert Cooper, President

Butler Wholesale Products, Inc.
P.O. Box 308
37 Pleasant Street
Adams, MA 01220
413-743-3885
Mr. Albert Bashevkin, President

Cambridge Packing Co., Inc.
19-20, 39, 43 Food Mart Road
Boston, MA 021128
617-269-6700
Mr. Stanley Rodman, President

Carl W. Smith Food Distributor, Inc.
P.O. Box 1192
Bangor, ME 04401
207-945-9457
Mr. Carl Smith, Jr., President

Cirelli Foods, Inc.
970 West Chestnut Street
Brockton, MA 02400
617-584-6700
Mr. Joseph Cirelli, President

Colonial Wholesale Beverage Corp.
965 Reed Road
North Dartmouth, MA 02747
617-999-2337
Mr. Frank Sousa, Jr., President

Dole & Bailey, Inc.
16 Conn Street
Woburn, MA 01888
617-935-1234
Mr. Donald Matheson, President

E.A. Tosi & Sons Co., Inc.
77 Messina Drive
P.O. Box 265
Braintree, MA 02184
617-848-1040
Mr. Paul Tosi

Frosted Foods, Inc.
N. Commercial Street
P.O. Box 486
Manchester, NH 03101
603-623-3564

George Spencer & Co., Inc.
90 Avocado Street
P.O. Box 2738
Springfield, MA 01101
413-785-1587
Mr. Howard Albert, President

Hallsmith/SYSCO Food Services, Inc.
380 South Worcester Street
Norton, MA 02766
617-285-6361
Mr. Edward Hasty, President

Henry F. Fagan Wholesale, Inc.
134 Post Street
P.O. Box 843
Rutland, VT 05701
802-773-8295
Mr. Timothy Fagan, President

Jimmy's Food, Inc.
23 Ferry Street
Van Buren, ME 04783
207-868-3311
Mr. Camile Lagasse

John Sexton & Co.
505 University Avenue
Norwood, MA 02062
617-762-9200
Mr. Roger Coleman, President

Kraft/S.S. Pierce Co.
P.O. Box 6030
1 Technology Drive
Peabody, MA 01960
508-532-5000
Mr. Ron Vautour, President

L. Hurshberg, Inc.
Hercules Drive
P.O. Box 70
Colchester, VT 05446
802-655-2226
Mr. William Moore, President

Merchants Poultry Co.
9-11 Food Mart Road
Boston, MA 02118
617-269-6080
Mr. Lawrence Cianciolo, President

New England Food Service Company
211 S. Main Street
Bellingham, MA 02019
508-883-1800
Mr. Nick Santoro, President

PYA/Monarch Inc.
201 Beacham Street
Everett, MA 02149
617-389-3300
Mr. James Cockman

R.J. MacKoul Foods, Inc.
76 Webster Place Ext.
Worcester, MA 01603
617-799-4423

Dole & Bailey, Inc.
16 Conn Street
Woburn, MA 01888
617-935-1234
Mr. Donald Matheson, President

E.A. Tosi & Sons Co., Inc.
77 Messina Drive
P.O. Box 265
Braintree, MA 02184
617-848-1040
Mr. Paul Tosi

Frosted Foods, Inc.
N. Commercial Street
P.O. Box 486
Manchester, NH 03101
603-623-3564

George Spencer & Co., Inc.
90 Avocado Street
P.O. Box 2738
Springfield, MA 01101
413-785-1587
Mr. Howard Albert, President

Hallsmith/SYSCO Food Services, Inc.
380 South Worcester Street
Norton, MA 02766
617-285-6361
Mr. Edward Hasty, President

Henry F. Fagan Wholesale, Inc.
134 Post Street
P.O. Box 843
Rutland, VT 05701
802-773-8295
Mr. Timothy Fagan, President

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23 Ferry Street
Van Buren, ME 04783
207-868-3311
Mr. Camile Lagasse

John Sexton & Co.
505 University Avenue
Norwood, MA 02062
617-762-9200
Mr. Roger Coleman, President

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P.O. Box 6030
1 Technology Drive
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508-532-5000
Mr. Ron Vautour, President

L. Hurshberg, Inc.
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P.O. Box 70
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211 S. Main Street
Bellingham, MA 02019
508-883-1800
Mr. Nick Santoro, President

PYA/Monarch Inc.
201 Beacham Street
Everett, MA 02149
617-389-3300
Mr. James Cockman

R.J. MacKoul Foods, Inc.
76 Webster Place Ext.
Worcester, MA 01603
617-799-4423

Ranaldi Bros. Frozen Food Products, Inc.
1033 Turnpike Street
Canton, MA 02021
617-828-9100
Mr. Raymond Ranaldi, President

S.F.G. Springfield Foodservice Corp.
340 Taylor Street
P.O. Box 1954
Springfield, MA 01101
413-733-3053
Mr. Giorgio Cambi, President

Shaheen Bros.
439 Haverhill Street
Lawrence, MA 01842
617-688-1844
Mr. Donald Shaheen

Swift Independent Packing Co.
187 Cottage Street
Springfield, MA 01104
413-737-1173
Mr. Nick Grimaldi, Manager

Worcester Quality Food, Inc.
512 Southbridge Street
Worcester, MA 01610
617-791-9396

FOOD SERVICE BROKERS OF NEW ENGLAND
(Some of which currently handle potatoes)

Parker - Tilton, Inc.
P.O. Box 840
Scarborough, ME 04074
(207) 883-3417
Contact: Steve Smalley

Adams & Tully Corp.
24 Crescent Street
Waltham, MA 02154
(617) 893-3037
Contact: Frank Tully

Chase Kolbin Assoc.
690 Canton Street
Westwood, MA 02090
(617) 461-0700
Contact:

Leboeuf & Assoc., Inc.
368 Hillside Avenue
Needham Heights, MA 02194
(617) 444-5666
Fax: 449-7658
Contact: Norm LeBoeuf

Frank Norton Co.
875 Providence Highway
Dedham, MA 02026
(617) 449-6990
Contact: Frank Norton

Yankee Marketers, Inc.
P.O. Box 370
Middleton, MA 01949
(508) 777-9181
Contact: Amy Fay
Contact: Bob Verzautea

E.L. Cooney, Inc.
409 Pond Street
Braintree, MA 02184
(617) 773-1777
Contact: Jack Callahan
Contact: Thomas (Spike) Cooney

Food Enterprises
500 Turnpike Street
Canton, MA 02021
(617) 828-4800
Contact: Richard Sylvia

RETAIL FOOD BROKERS
(Some of which currently handle potatoes)

Adams & Tully Corp.
24 Crescent Street
Waltham, MA 02154
(617) 893-3037
Contact: Frank Tully

Lou Allen & Sons, Inc.
858 Walnut Street
Newton Center, MA 02159
(617) 332-8200
Contact: Lou Allen

Morris Alper & Sons, Inc.
10 Burr Street
Framingham, MA 01701
(508) 875-5600
Contact: Frederic Alper

Bergin-Bryant, Inc.
1 Bridgeview Circle, Suite 11
Tyngsboro, MA 01879
(508) 649-6905
Contact: Peter Bergin

Devine & Devine, Inc.
40 Accord Park Drive
Norwell, MA 02061
(508) 878-1735
Contact: Joseph Devine

APPENDIX 4

IMPLEMENTING THE STRATEGY

IMPLEMENTING THE STRATEGY[1]

Finding a Partner

Whether a Canadian firm chooses to export using manufacturers' representatives or distributors, or whether it has decided that a licensing agreement or joint venture is a more appropriate strategy, it is necessary to locate business partners in the United States.

There are a variety of sources of assistance available to Canadian firms seeking U.S. business partners. The best place to start is with the Canadian consulate located in the target U.S. market area. Consulates' trade commissioners keep detailed records of manufacturers' representatives, distributors and agents operating in their market areas and will provide them to Canadian firms.

Before visiting the consulate, a letter should be sent outlining the purpose of the visit, and information requirements. Manufacturers should arrive at the consulate equipped with a business plan clearly defining goals, objectives and criteria for selection of a business partner.

Consulates may also be able to assist with the identification of suitable licensing or joint venturing partners. Additionally, local accounting firms, consultants, lawyers, large local banks and business may be of assistance.

Trade shows are also an excellent means of contacting business associates, especially manufacturers' representatives and distributors. They are also a good means of assessing the competition. Manufacturers should plan to attend key trade shows prior to implementing a U.S. market penetration strategy.

A listing of most regional and national trade shows in the United States is available through contacting Co-Mar Management Services Inc., 366 Adelaide Street East, Suite 339, Toronto, Ontario, M5A 3X9; telephone (416) 364-5352. The directory, called "Directory of International Trade Fairs" may also be available at your local library, or through the B.C. Info Business Centre at 750 Pacific Blvd. South, Vancouver, B.C.

Manufacturers' representatives may be located through contacting MANA, or the Manufacturers' Agents National Association in Laguna Hills, California. This organization publishes a directory of agents organized by product specialty and territory, as well as publishing a monthly trade magazine.

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[1] Sourced from: Alternative Methods of Penetrating the U.S. Market. Peat Marwick International Trade Group, January, 1989.

Trade journals and magazines relevant to a particular industry may also be useful in locating business partners.

All manufacturers planning to penetrate the U.S. market should visit the market area and conduct as much market research as possible, or engage a consultant to do the same. Discussions should be held with important buyers and with as many distribution channel members as possible. This process will help the Canadian firm to identify potential business partners.

Selecting a Partner

Once a number of potential partners have been identified, the selection process begins. There are numerous published checklists of questions to ask prospective manufacturers' agents or distributors. At a minimum, the manufacturer should ask:

- How long the agent/distributor has been in business
- Volume of business transacted annually.
- Size of average order.
- Number of sales personnel and performance of each.
- Commission rate expected.
- Amount of time agents will devote to the Canadian product.
- For a copy of audited financial statements.
- For a listing of other products represented.
- For a customer list.
- For assurances regarding number of sales calls the agent will make in a monthly period.
- Whether the agent is willing to provide market intelligence information and at what price.
- Whether the agent will agree to allow the manufacturer to maintain house accounts, if necessary.
- Whether the agent is prepared to provide after sales support, if necessary.

- Agents's assessment of prospects (sales forecast).
- References.

Drawing Up an Agreement

Manufacturers should seek assistance from legal and accounting professionals when drawing up an agreement with any U.S. business partner. Chances are good that one of these professionals will be able to provide draft copies of standard agreements which will be useful in ensuring that all key areas are covered. Market research activities in the target market may also turn up competitors' agreements.

Organizational Factors to Consider

Canadian manufacturers should be prepared to respond to the needs of their U.S. business partners immediately upon signing a deal. This may require significant work and reorganization at home.

An exporting strategy places demands on all members of the domestic company from marketing personnel, to purchasing, shipping and accounting. Within each affected department, someone must be assigned responsibility for export-related business matters. Without specific assignment of authority and the establishment of clear reporting lines, key decisions will require unreasonable amounts of time and business will likely be lost.

Responsibility for the U.S. business base must also be clearly assigned at senior management levels. Without senior management commitment, no strategy will succeed.

It is important to ensure that all of the details associated with the new foreign market activities have been addressed by the time an agreement is in place. For example, manufacturers who have chosen an exporting strategy will need:

- a ready supply of order forms, quotation forms and other administrative forms;
- procedures in place to replace faulty or otherwise unsatisfactory merchandise in a timely manner;
- a plan for and schedule for sales meetings with U.S. sales reps;
- a financial accounting system in place that can cope with exchange rates, invoicing south of the border and timely remuneration of non-company sales representatives, if applicable;
- arrangements with a banker who will assist in collecting foreign receivables;

- a supply of product literature suitable to the foreign market;
- price lists calculated F.O.B. nearest border crossing, and including agents' commissions, U.S. customs duties, U.S. customs house brokerage charges, insurance and freight;
- product sample;
- merchandising racks, if required;
- advertising and promotional materials; and
- product specifications, if applicable.